

28 October 1985

Intelligence Efforts Grow

By STEVEN E. PROKESCH

After more than 20 years of analyzing weapons-related technological developments for the Central Intelligence Agency, Jan Herring is now working for Motorola Inc., helping the big electronics company analyze the technological advances of its competitors.

Stuart A. Feldstein has spent most of his career as a business journalist, and his partner, Mark S. Kamm, worked as a private investigator. Now they hire themselves out to major corporations willing to pay generously for information on a competitor's costs, its plans to introduce a new product or the type of research it is conducting.

Whether they are doing it themselves or hiring the likes of Mr. Feldstein and Mr. Kamm, a rapidly growing number of American companies are stepping up their efforts to keep tabs on each other as well as foreign competitors — especially the Japanese.

Overseeing Intelligence Efforts

Several companies, including Motorola, Eastman Kodak, General Motors and Cross & Trecker, the big machine tool maker, have either established formal intelligence units or designated specialists to oversee their intelligence efforts within the last two or three years.

Many other companies, such as GTE, General Electric and Pfizer, do not have separate intelligence staffs but are nonetheless making "competitor analysis" or "business intelligence" an integral part of their strategic planning process.

Not surprisingly, the consultants and companies that are willing to discuss the topic of business intelligence insist that they do not — and would not — resort to illicit methods to glean information. Stealing a company's documents on its product plans or proprietary technology, for instance, would constitute industrial espionage, with possible civil and criminal penalties. Instead, the corporate intelligence operations are said to employ such methods as tracking patents, talking to industry insiders and taking apart a competitor's products to see how they tick.

"There is a great deal more attention being paid to all phases of competitor analysis than I have seen before," said Paul A. Branstad, a strategy specialist at Booz, Allen & Hamilton Inc., the management consulting company. "Understanding your competitors' positions and how they might evolve is the essence of the strategic game."

For instance, one recent client of the SMR Research Corporation, the New Jersey-based concern of Mr. Feldstein and Mr. Kamm, wanted to know why Citicorp's Person-to-Person consumer loan operation was pricing its loans unusually low. Was it because the unit was trying to build market share or because its cost of funds was low? "That kind of information is imperative in order to compete with Citicorp subsidiaries, whose results are seldom discussed by Citicorp itself," Mr. Feldstein said.

Many companies maintain that gathering information is not necessarily a question of spending more money, but rather using existing resources, such as a sales force, to pass on that information and make more of an effort to exploit it. Nonetheless, spending appears to be increasing. The intelligence-gathering budgets of 25 major companies recently sur-

veyed by Information Data Search, a business intelligence firm based in Cambridge, Mass., ranged from \$50,000 to more than \$1.5 million.

Corporate clients of Washington Researchers pay the 11-year-old company as much as \$60,000 to check up on a competitor, said Leila K. Kight, the firm's president.

Mr. Feldstein has also found plenty of companies willing to pay the \$1,950 his company charges for a 203-page study of Sears, Roebuck & Company's financial services operations. Some of those buyers, he said, were Citicorp, Bank of America, Prudential and G.E. Credit.

Changes in Strategic Planning

The increased interest in business intelligence parallels the changes in the strategic planning process that have occurred in recent years.

"Up until five years ago, many firms, in effect, designed their strategies as if they had no competitors," noted Liam Fahey, an expert on competitor analysis who teaches at Boston University.

Indeed, strategic planners in many companies were numbers-crunching business-school graduates who might have been steeped in all the latest quantitative models, but lacked first-hand knowledge of the businesses whose future they were supposedly plotting.

That became only too apparent in the late 1970's and early 1980's, when growth in many markets stalled, competition intensified and many grandiose strategies turned out not to be worth the paper upon which they were written.

Battle Plans

With operating managers — rather than corporate staff members — now drawing up companies' strategies, corporate officials and consultants said, those strategies are becoming something they should have been all along: battle plans for beating the competition. And that requires understanding the competition's current and future position in everything from its manufacturing costs and technology to its plant capacity and sources of supply.

"If you want to survive in the future, you've got to know more about your competition than we — American companies — have in the past," said D. Otis Wolkins, the vice president who oversees the GTE Corporation's business intelligence efforts.

Japanese companies, of course, have long been the acknowledged experts in the area of business intelligence.

And by using that information to pinpoint American companies' weaknesses, they have been able to carve out formidable positions in industries ranging from steel and automobiles to semiconductors and consumer electronics.

Now, American companies are following in their footsteps. They are touring competitors' factories, dissecting their products and pumping competitors' customers, suppliers and even their former employees for information.

"One of the many purposes of General Motors' joint venture with Toyota" to manufacture small cars in California "was to get information" on Toyota's manufacturing techniques, acknowledged Carlisle R. Davis, group director of quality at G.M.'s Chevrolet-Pontiac-Canada division and former head of the division's organizational competitiveness group.

A similar motive helps to explain the surge in the number of American corporations opening offices in Japan. "A lot of companies are here for the purpose of monitoring what's being developed," Herbert F. Hayde, president of the American Chamber of Commerce in Japan, said in a telephone interview from Tokyo.

Sometimes, of course, companies have become overly zealous and have crossed the legal boundary in obtaining information on the competition.

Corporate Espionage

The most celebrated recent case of corporate espionage involved a major Japanese electronics company, Hitachi. In 1982, Hitachi pleaded guilty to criminal charges of stealing trade secrets from the International Business Machines Corporation.

This past September, a unit of GTE pleaded guilty to conspiring to illegally obtain Pentagon planning documents. The Justice Department said GTE had hoped to use the documents to help it win contracts for electronic warfare equipment.

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But so far, at least, the increased intelligence activity of American corporations has not resulted in a noticeable increase in industrial espionage, according to spokesmen for the Federal Bureau of Investigation and the United States Attorney for the Southern District of New York.

Clearly, there are many legal methods that companies can employ to find out what the competition is up to.

To ferret out information about a target company, Mr. Feldstein scours newspapers, magazines and trade journals. He interviews the target company's competitors, suppliers and customers. And SMR also maintains a data base of more than 10,000 people who have changed jobs and might make good sources of information on their former employers.

"Half of the former employees we call don't care to discuss it. About 20 percent can't because of confidentiality agreements. The other 30 percent, you can't get off the phone," said Mr. Feldstein, who emphasized that "we never pay them for information."

While once the Japanese were famous for taking apart American products and using what they learned to improve their own, American companies are now repaying the Japanese in kind.

A visitor to the Xerox Corporation's technology complex near Rochester might very well find technicians dissecting Canon's personal copier. Xerox now regularly disassembles and analyzes other companies' photocopiers in an attempt to figure out competitors' manufacturing costs and to monitor changes in technology and the use of new materials.

By doing so, Xerox spotted a dramatic increase in the use of plastics that make photocopiers lighter, more durable and easier to manufacture. Xerox now is also using more plastic, said H. Barry Bebb, a Xerox vice president.

If some American companies are still not sure how to monitor their competitors, many intelligence firms and business schools are more than happy to take their money to teach them.

"Competitive analysis," said Robert B. Duncan, associate dean for academic affairs at Northwestern University's business school, "is one of the hottest topics on the seminar market right now."